

HORIZON

trends and issues to watch, ideas and innovations to use

Employers Seek Options as Health Care Costs Climb

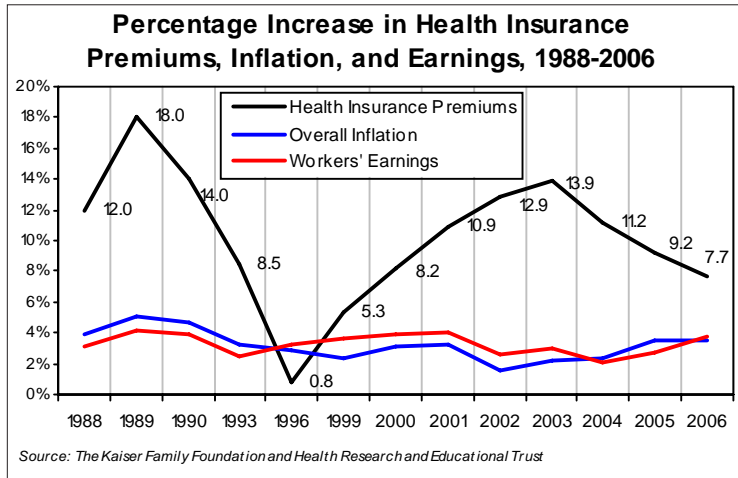
While double-digit cost increases have abated, health insurance costs are still rising steadily, prompting employers to cut costs and benefits, according to *The Los Angeles Times*.¹ Further, employers may have reached the limit on how much of the cost of health care they can shift to employees. One recent study showed that deductibles and copayments leveled off in 2006, after surging in the late 1990s and early 2000s. And as employee shares of health costs increased, many opted out—usually the healthiest. In turn, employer and employee costs rose ever higher, as fewer healthy people remained to subsidize the costs of the sick. To lure the healthy back, companies have shifted focus.

Employers who offer benefits are increasingly turning their attention to wellness programs and consumer-directed health plans with low premiums and high deductibles. The percentage of large companies (500 or more employees) that offer preventive health screenings nearly doubled in the last three years. Overall, about a quarter of the nearly 3,000 companies surveyed offered screenings that assess workers' health and offer guidance on staying healthy.

Toyota Motor Corporation's health care costs have doubled over the past five years to more than \$11,000 a year per U.S. worker. In its newest plant, *The Detroit News* reports,² Toyota has taken a new approach, building a clinic at the factory that provides services, including vision checks, dental care, laboratory tests, physical therapy, and even pediatric care. Companies adopting such practices spend more up front for primary care and drugs, but the cost is more than offset by a drop in costly hospitalization and specialty care expenses. On-site clinics are also expected to reduce absenteeism. Moreover, Toyota clinic physicians will not be remunerated on the basis of how many patients they see—the U.S. health care system's prevailing payment structure—but rather encourage more time with doctors.

The high cost of health insurance is particularly burdensome for small and start-up companies. A 2005 Kaiser Family Foundation and Health Research and Educational Trust survey of small businesses found that 51 percent of owners did not offer and had no plans to offer health insurance for their employees.³ Small companies that offered health insurance to workers spent a median 18.7 percent of their gross sales on health coverage, compared with 2.3 percent among higher-grossing firms.

U.S. workers employed by large, traditionally benefit-rich industries are declining while a growing number work for small firms that do not offer health insurance, retirement benefits, or sick leave, according to a *USA Today* article.⁴ In the five-year period, 2000-2004, high-coverage firms with rich benefit packages shed 2.1 million workers while low-coverage industries gained 3.5 million workers, according to *Health Affairs*.⁵ About 60 percent of companies with 3 to 199 workers offered health benefits in 2006 vs. 98 percent of those with 200 or more workers, according to the Kaiser Family Foundation. By most estimates, nearly half of all U.S. private-sector workers do not have a single day of paid sick leave, and more do not have a paid day off that can be used to care for a sick child, *The Washington Post* reports.⁶ Low-wage workers are hit hardest; three out of four have no paid sick leave. Only about half of current workers are covered by employer pension plans, and nearly half of current retirees receive no pension income. As employers trim benefits to cut costs, older people are being saddled with unexpected costs.⁷ In time, legions of the elderly may find themselves shouldering high medical costs with diminishing resources, placing new pressures on a deficit-burdened federal government that faces a vast, uncovered liability for Medicare coverage for the baby boom generation, not to mention an impending Social Security shortfall.



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Possible Implications for Kentucky: As health care and insurance costs spiral upward, many states, most recently California, have launched initiatives to expand access to health care. Cost containment and its implications for state budgets is integral to many of these strategies for change. Thus, the states continue to be laboratories of democracy paving the way toward solving one of the nation's most troubling problems.

The Toyota workplace model offers opportunity for replication in settings such as schools and communities with high levels of unmet need. Without global answers to the dilemma of covering the uninsured, a public health response may be needed to contain the damage done by the growing inaccessibility of health, dental, and mental health care.

If unchanged, the scenario of a growing population with fewer resources and higher costs will result in unmet needs and higher societal costs. From children whose capacity to learn is diminished to sick workers whose productivity lags, costs accumulate and spread to each of us. Disappearing or dwindling pensions could leave state and local governments with mounting needs and unmanageable costs. Without timely and innovative plans to support what will be the largest elder population in the history of our nation, consequences could be tragic. With an eye toward the wise use of resources—people, facilities, and funds, we can anticipate need and avoid deprivation among vulnerable citizens of all ages.

New Laws Prohibit Smoking Around Children


Antismoking activists have new tactics in their effort to protect children from secondhand smoke. Substantial research shows that children who are exposed to secondhand smoke suffer, among other things, an increased risk of respiratory ailments and sudden infant death syndrome. Increasingly, state political leaders are looking for ways to reduce exposure. Smoking has now been banned in homes and cars when children are present in Texas, Vermont, Washington, Arkansas, and Louisiana, according to a recent *USA Today* report.⁸ Some prohibitions apply to foster parents, others forbid smoking in cars carrying young children, and some courts are ordering smoke-free environments in custody and visitation disputes.

Possible Implications for Kentucky: Kentucky has the highest smoking rate in the country. Consequently, many children are exposed to secondhand smoke from a very early age. Overwhelming evidence finds that such exposure can contribute to severe and potentially lifelong health problems, undermining public health while imposing an avoidable burden on Kentucky's health care system.

Though Increases Smaller Than in Recent Past, Tuition Still a Burden

Though tuition hikes are slowing, they still outpace inflation, *Stateline.org* reports.⁹ With state revenues rising, public colleges and universities on average increased tuition and fees 7.1 percent during the 2005-06 academic year. While down from recent double-digit increases, the pace exceeds the rate of inflation, and similar increases are expected this year. States are responding. Maryland and California will freeze state college tuition this year, and Florida raised tuition only 3 percent, its lowest increase in more than a decade. In New Jersey, the legislature forced colleges to cap hikes at 8 percent, keeping the state's largest university, Rutgers, from increasing tuition 10 percent. But Virginia raised tuition 9.3 percent despite a 15 percent increase in funding.

Because states underwent one of their worst budget crises ever from 2000 to 2005, massive cuts in funding to higher education were blamed for extraordinary tuition increases at colleges and universities. In turn, higher tuition has raised the average level of student debt. The number of students graduating with at least \$40,000 in debt multiplied from about 7,000 in 1993 to about 77,500 in 2004. Undergraduates who borrow leave school with an average debt of \$15,500. Over the last decade, grants to both undergraduates and graduate students increased 86 percent, and state grants rose 78 percent, but rising tuition is quickly absorbing the increased financial assistance.

Potential Implications for Kentucky: A more highly educated workforce will be a major building block for Kentucky's economic development initiatives. If Kentucky is to encourage more adults to earn a bachelor's degree, affordability will be key, particularly to working heads of households. Ultimately, the state may have to absorb a larger part of the cost of education since more students require more faculty, staff, and resources. The University of Louisville recently announced the creation of the Cardinal Covenant, a plan for low-income students from Kentucky families at or below 150 percent of the federal poverty level, to attend and graduate from college at no cost,¹⁰ using federal, state, university, and private funds. The University of Kentucky is expected to announce a similar plan near the end of January. 

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